



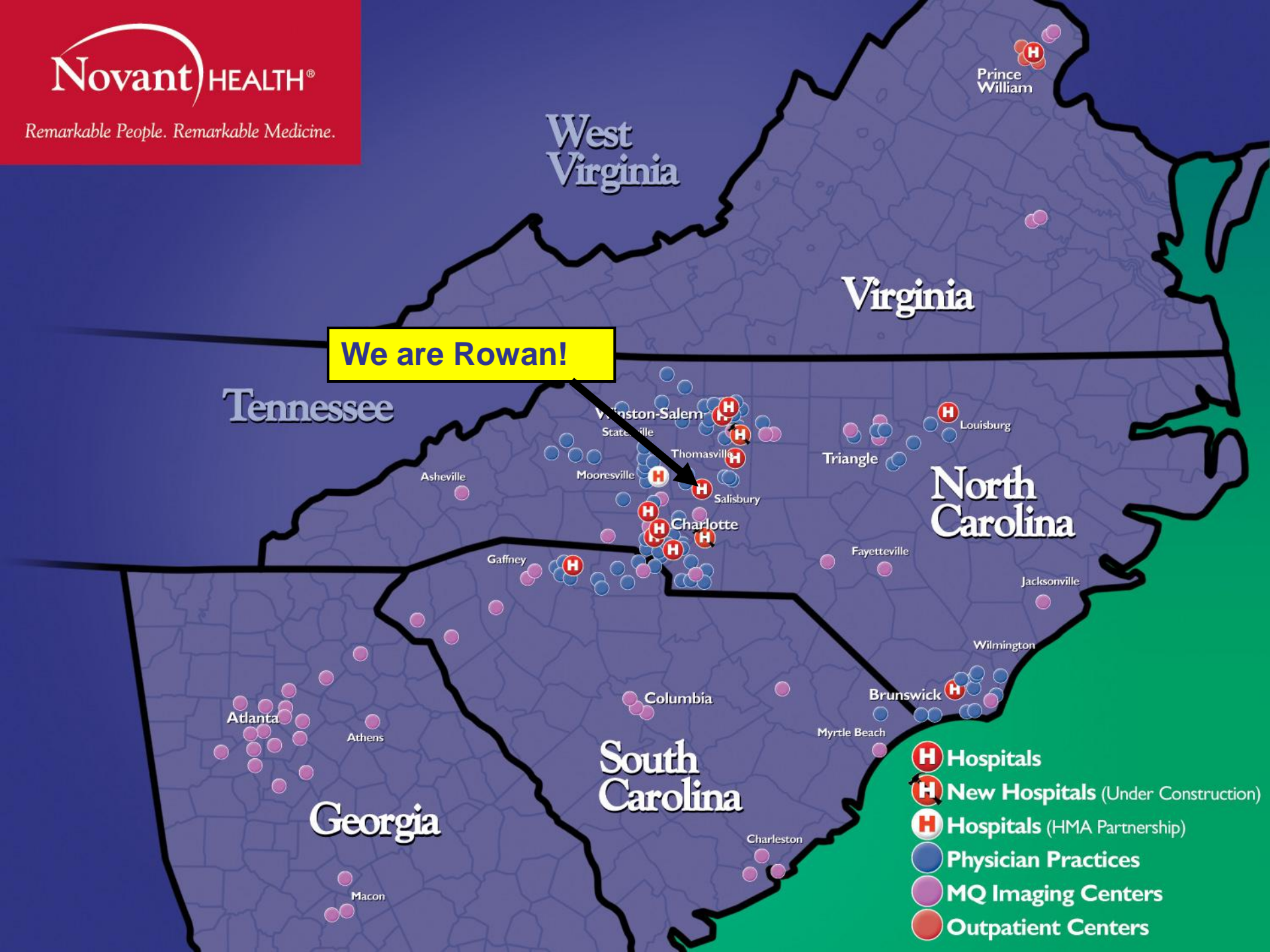
The Changing Healthcare Landscape in North Carolina

**Address to the NC House Select
Committee on CON Process and
Related Hospital Issues
November 1, 2011**

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An Affiliate of Novant Health

A Non-Profit Healthcare System



Rowan Regional Medical Center

- RPMC service area: Rowan (86%) & Cabarrus, Davie, Davidson & Stanly counties
- ~1,200 RPMC Employees
- 268 bed acute care hospital, imaging & physical medicine center, surgery center, radiation oncology center
- RPMC Active Medical Staff of >275 physicians in >20 specialties
- Rowan county has current unemployment rate of 11.8% Majority payor for RPMC is Medicare, Medicaid and self pay
- RPMC provided Community Benefit services valued at \$28.7 Million in 2010 *(includes \$10.4 Million in Hospital Charity Care)*
- RPMC recognized in top 10% nationally for quality services & effective operational management by The Joint Commission



FFY 2010 Vital Statistics-RPMC

- | | |
|--------------------|----------------------------|
| • 8,400 discharges | • 53,170 ED visits |
| • 11,170 surgeries | • 105,000 outpatient cases |
| • 780 births | |

Novant Value Imperatives

- ***Quality and Transparency***

- Quality measure results posted on Novant's website
- Exceed national averages – Rowan Regional Medical Center recently recognized by The Joint Commission
- Novant shares best practices across our system

- ***Charity Care- Access to Care***

- Annual household income of 300% X Federal Poverty Level
- Charity Care process is simple: a one page form
- Charity Care process is accessible: posted on the Novant web site
- Uninsured Discount
- Catastrophic Settlement
- Payment Plan

North Carolina's CON Law

**North Carolina's
State Medical Facilities Plan (“SMFP”)**

SMFP Policy AC-3

Hospital Authorities

Novant's Position on NC CON

- We strongly support North Carolina Certificate of Need and Health Planning.
- Both programs must be *fair* and *transparent*.
- Both programs need to keep up with the rapidly-changing health care landscape.

MEND IT, DON'T END IT.

NC Health Planning Overview:

The Annual State Medical Facilities Plan

- The State Medical Facilities Plan (SMFP) is North Carolina's health planning document:
 - SMFP regulates many basic elements of the health care system (beds, operating rooms, MRI scanners and cardiac catheterization units).
 - The general rule is that if the SMFP does not contain a “need” for more beds, ORs, MRI scanners, etc., these things cannot be added by providers
- The SMFP is published annually and signed by the Governor.
 - Results from a year-long planning process
 - DHSR Medical Facilities Planning Section staff and volunteers (the State Health Coordinating Council) spend hundreds of hours on the development of the SMFP every year.

SMFP Policy AC-3

(adopted in 1983)

- The exception to the rule that allows **certain** providers to add services/facilities even when there is **no need** and even when there is a significant surplus of assets
- Only applies to four providers in North Carolina- the Academic Medical Centers (AMCs):
 - North Carolina Baptist Hospital
 - Duke University Medical Center
 - Pitt Memorial Hospital
 - UNC Memorial Hospital
- North Carolina is the **only state** with a health planning process that has such an exemption for AMCs.

The Text of Policy AC-3:

Required Conditions

Exemption from the provisions of need determinations of the NC State Medical Facilities Plan shall be granted to projects submitted by Academic Medical Center Teaching Hospitals designated prior to January 1, 1990 provided the projects comply with one of the following conditions:

1. Necessary to complement a specified and approved **expansion of the number or types of students, residents, or faculty**, as certified by the head of the relevant associated professional school; or
2. Necessary to **accommodate patients, staff, or equipment** for a specified and approved expansion of **research activities**, as certified by the head of the entity sponsoring the research; or
3. Necessary to accommodate changes in **requirements of specialty education accrediting bodies**, as evidenced by copies of documents issued by such bodies.

Text of Policy AC-3: The 20 Mile Rule

- A project submitted by an Academic Medical Center Teaching Hospital under this Policy that meets one of the above conditions ***shall also demonstrate*** that the Academic Medical Center Teaching Hospital's teaching or research need for the proposed project ***cannot be achieved effectively*** at any non-Academic Medical Center Teaching Hospital provider which currently offers the service for which the exemption is requested and ***which is within 20 miles of the Academic Medical Center Teaching Hospital.***

Real Life Example

- The 2010 SMFP showed a surplus of 5.52 ORs in Forsyth County.
- North Carolina Baptist Hospital (NCBH) proposed to add **7 new operating rooms** in Winston-Salem in an outpatient surgery center to do **basic outpatient surgeries** such as tonsillectomies.
 - Based on an AMC-identified “need” to support expanded faculty & student teaching
- The medical school associated with **NCBH also owns three underutilized ORs** located in Forsyth County.
- There are multiple operating rooms **less than 3 miles away** at Novant facilities that **have capacity** to take on more cases and that do the procedures NCBH proposes to do in its surgery center.
- Novant facilities are involved in training NCBH residents, including surgical residents.
- NCBH filed a CON application that was approved under Policy AC-3. NCBH could file this application because it is an AMC; Novant could not because Novant is not an AMC.
- **No discussion** in the CON application of the **20 Mile Rule** and the **underutilized** facilities.
- Population/surgical use rates not growing at a rate to sustain NCBH's project so volumes will have to be shifted from other facilities, including Novant.
- Novant projects to lose \$7 million to \$11 million annually because of this project.

Continued Improvements to Policy AC-3

- The health care landscape has changed dramatically since 1983.
- Health planning policies must reflect the current landscape.

1983 v. 2011



1983 v. 2011

Then

- There were 4 AMCs that were focused on 4 hospitals in four counties.
- AMCs tended to stay on their campus.
- Their only faculty were true academicians heavily involved in teaching and research.
- AMCs did not affiliate with non-AMCs.
- Competition with community-based providers was minimal.
- AMCs handled the majority of medical school and resident teaching
- AMCs handled the majority of research

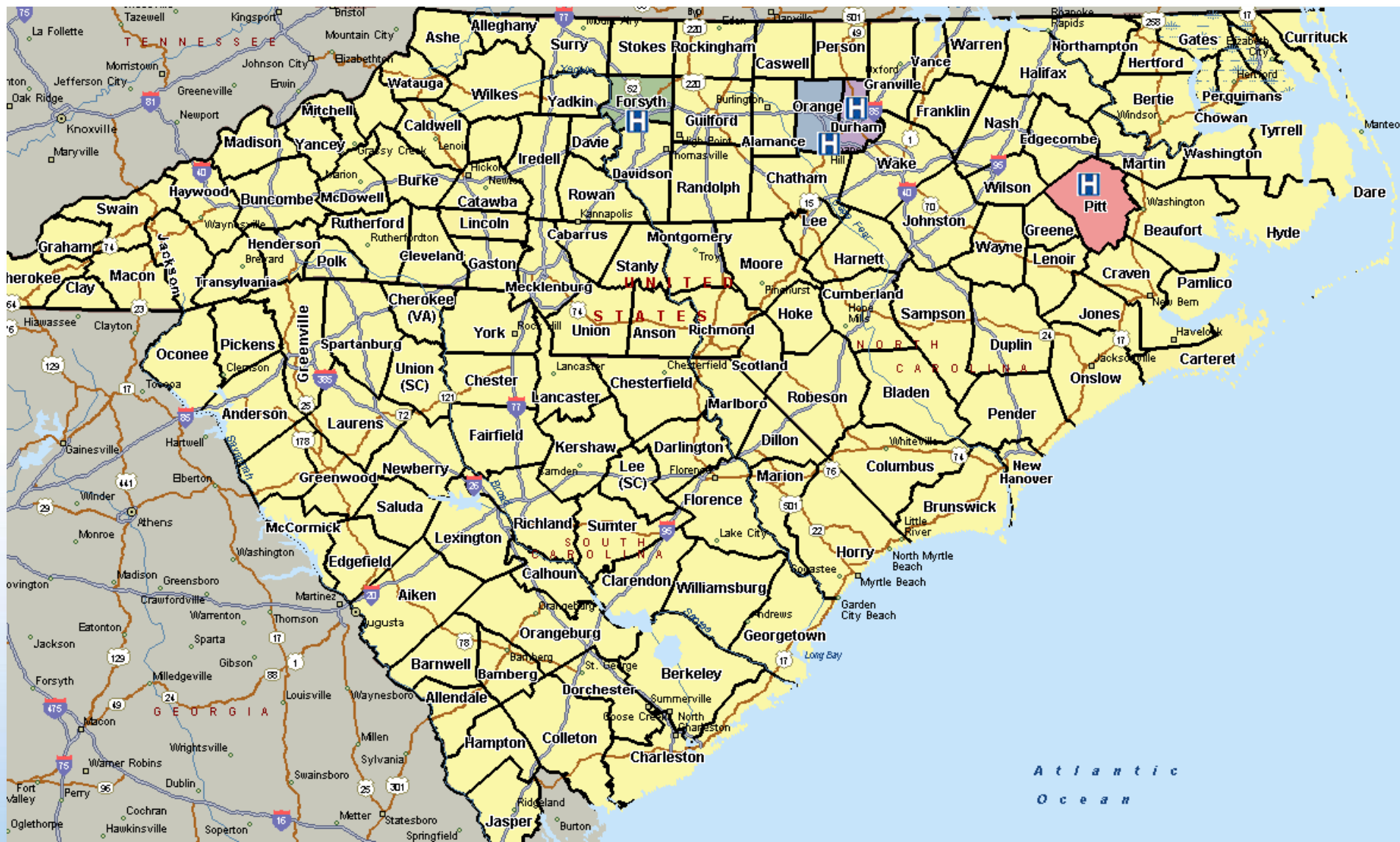
Now

- AMCs serving patients in all 100 North Carolina counties
- AMCs have moved off campus (example: UNC's community hospital in Hillsborough, on the Alamance County line)
- Faculty includes many community physicians
- AMCs affiliate with non-AMCs (example: Duke's joint venture with LifePoint, a for-profit company)
- AMCs are direct competitors of community hospitals, community based surgery and imaging centers, and private practice physicians
- Non-AMC tertiary providers heavily involved in training medical students and residents
- Non-AMC tertiary providers involved in research including clinical trials

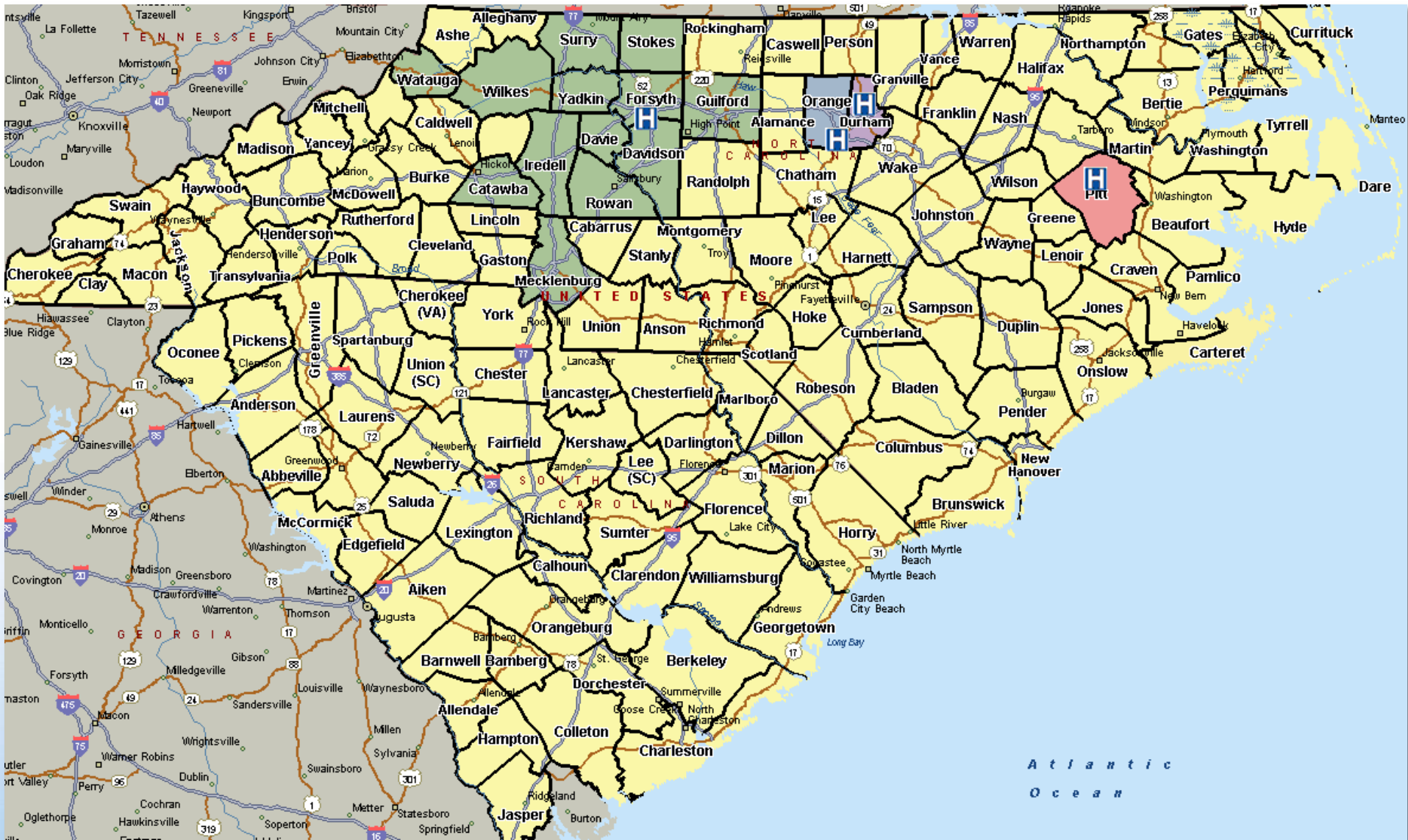
1983 v. 2011

Academic Medical Center Growth

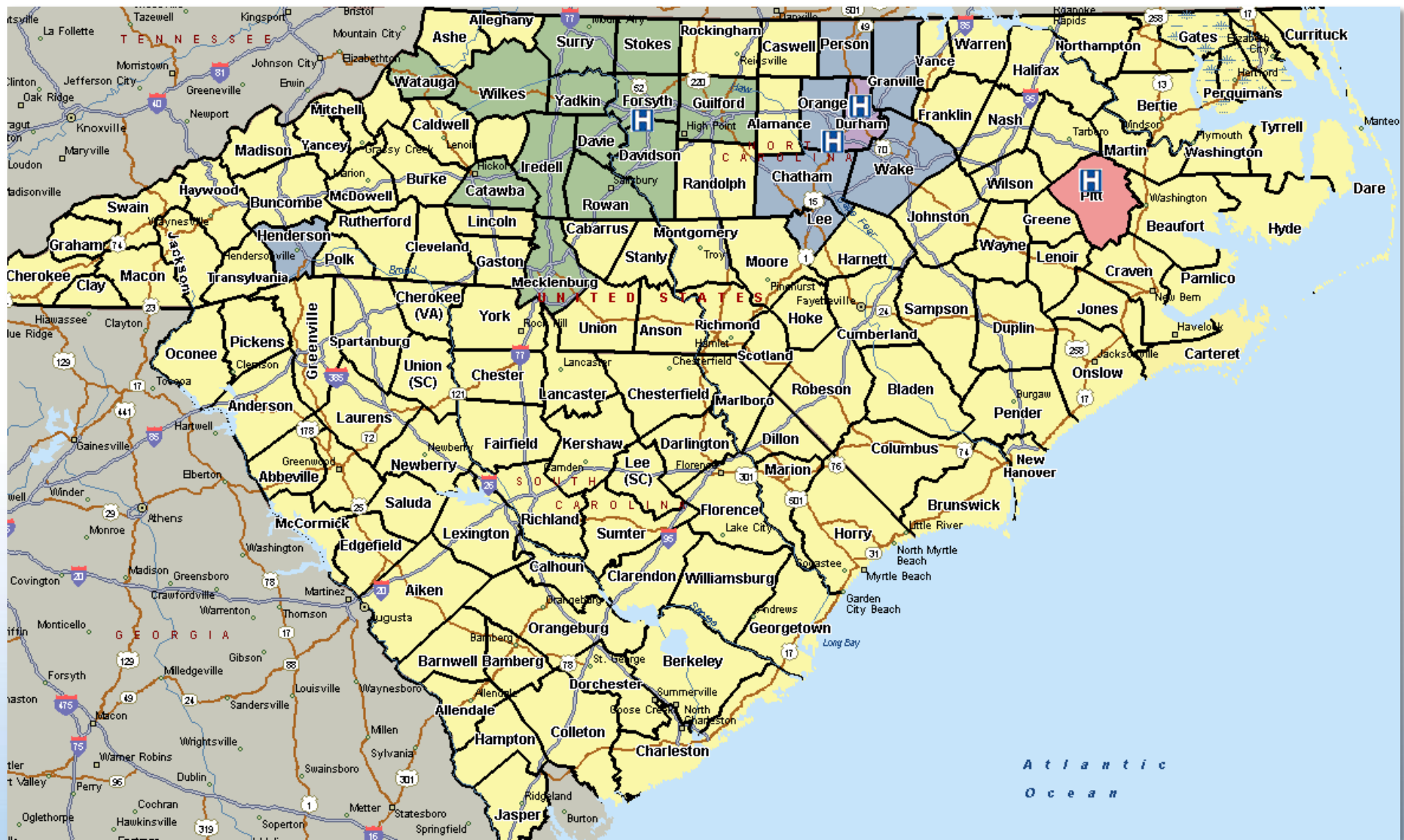
1983: Footprint of Four AMCS in North Carolina



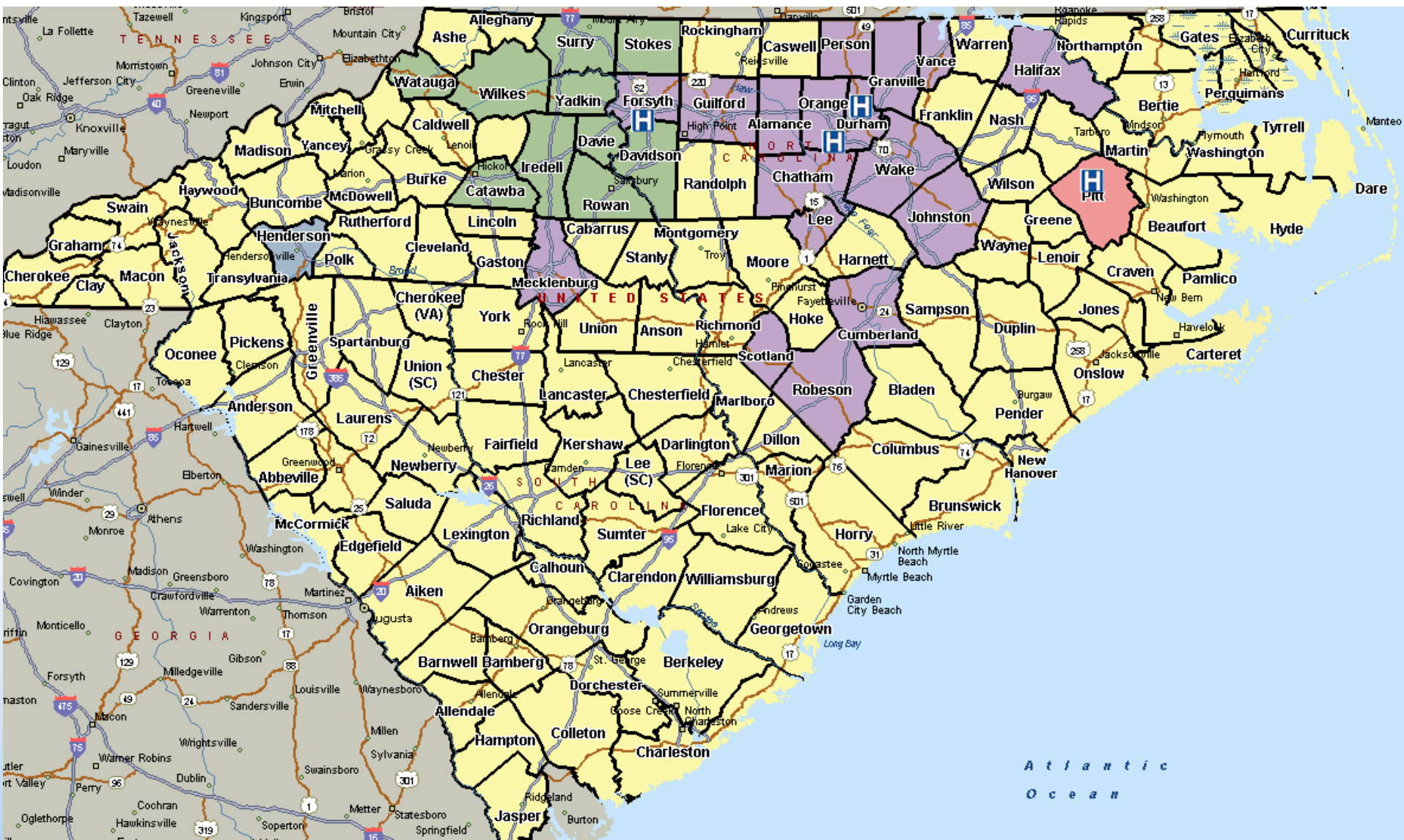
Wake Forest Baptist Health Footprint- 2011



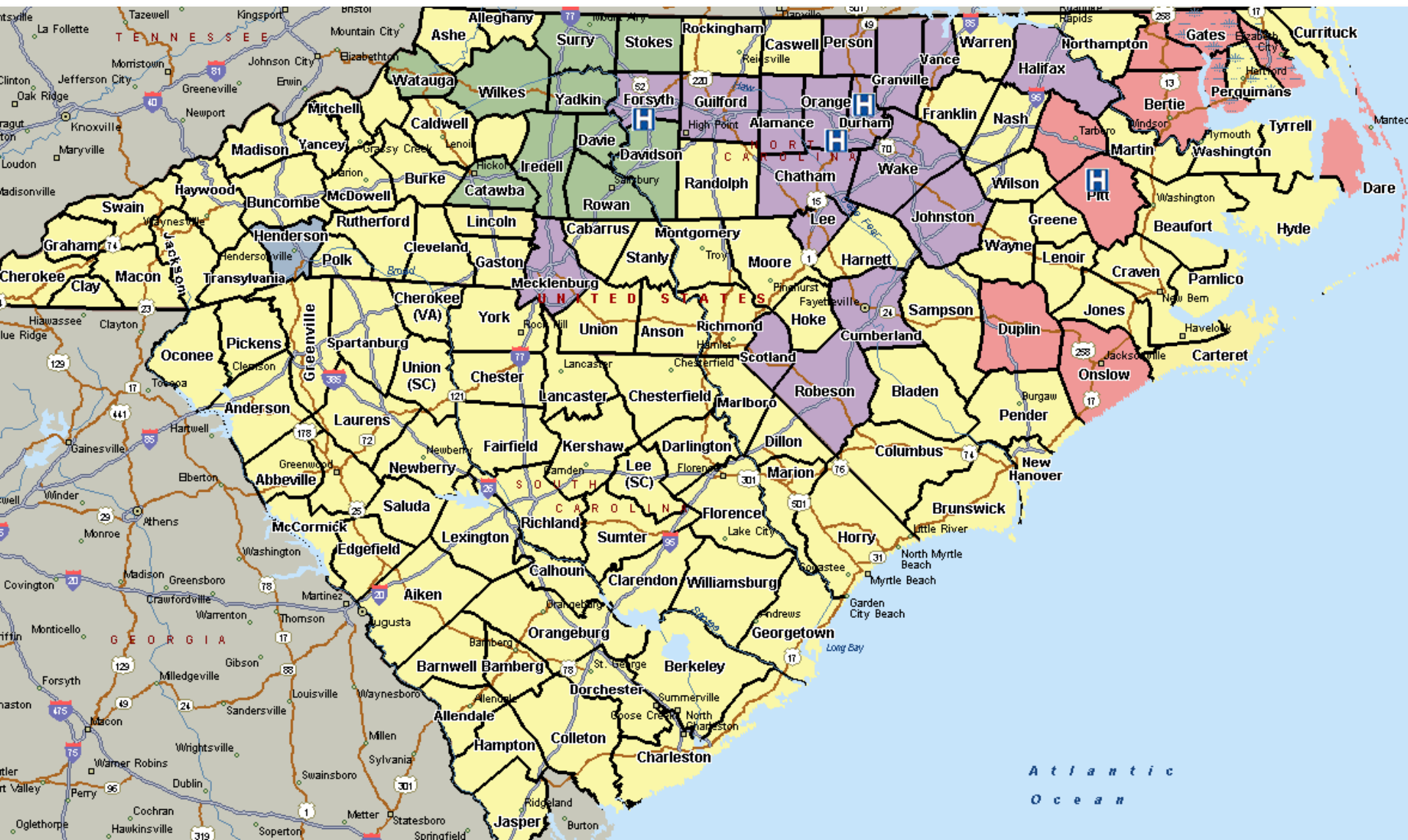
UNC Healthcare- Footprint 2011



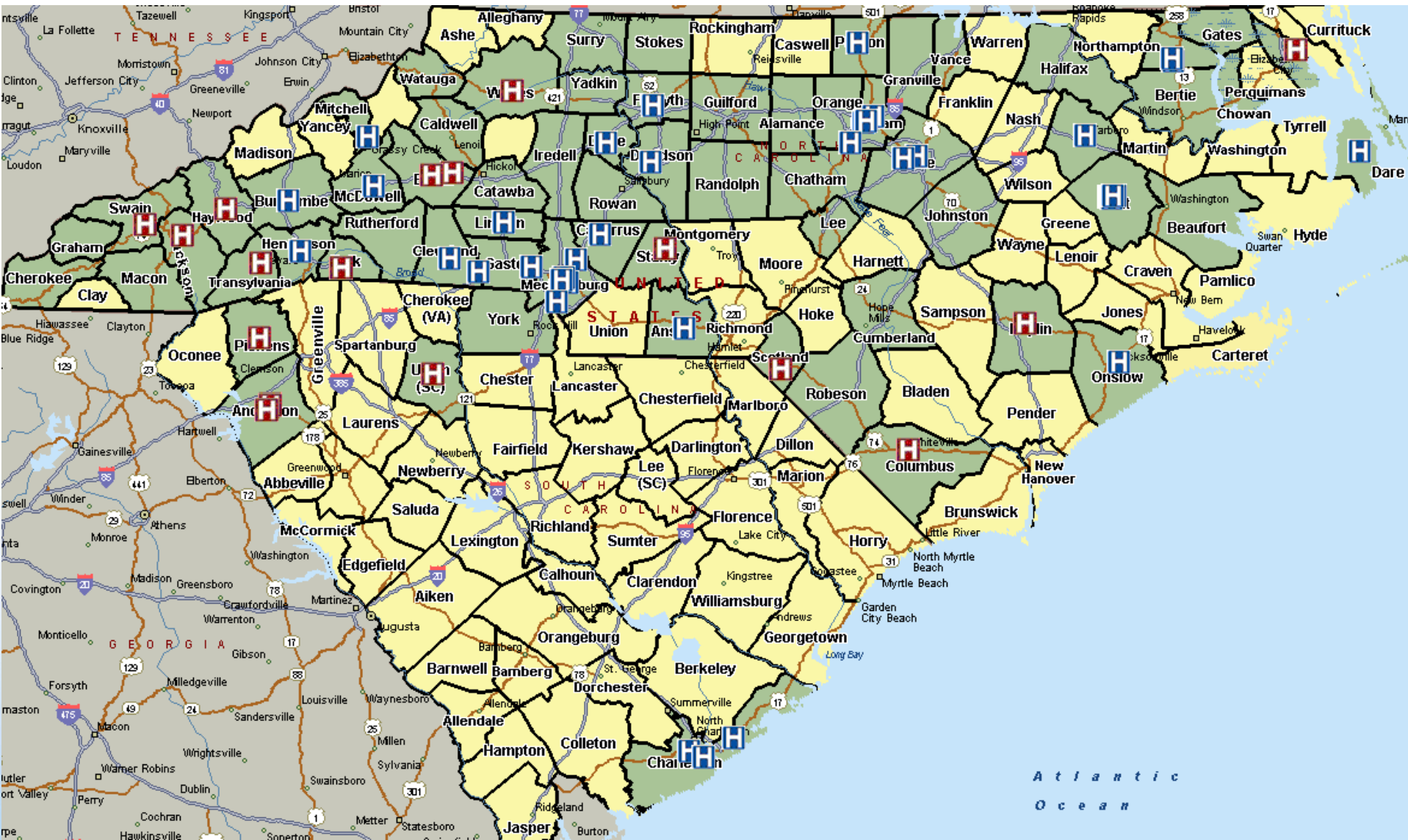
Duke University Health System- Footprint 2011



Pitt/University Health Systems-2011 Footprint



CMHA, Mission and Duke, Pitt, UNC, & Wake Forest Baptist Footprints- 2011



Changing Landscape

“The legislation creating (UNC Health Care) System reflects a clear legislative intent to authorize the system to act with such degree of autonomy and flexibility **as may be necessary to achieve these goals within the increasingly competitive healthcare industry.**”*

*Source: NC Attorney General’s Opinion requested by UNC Health Care System re: authority to acquire Rex Hospital (February 2000)

Presented by UNC to the House Select Committee on State-Owned Assets, September 2011

AMC Operating Performance & Metrics

FY 2010 results highlight the systems' strong performance as most profitability margins exceed the respective Moody's medians

Duke University Health System's results are particularly strong having margins that significantly exceed the Moody's medians and those of other systems

	Mission Health System	University Health Systems of Eastern Carolina	Duke University Health System	University of North Carolina Health Care System	North Carolina Baptist Hospital & Affiliates	Carolinas Healthcare System	FY 2010 Moody's Medians ²	
	FY 2010	FY 2010	FY 2010	FY 2010	FY 2010	FY 2010	Aa	A
(\$ in millions)								
Operating Revenue	\$967	\$1,195	\$2,150	\$1,862	\$971	\$3,855	\$1,648	\$510
EBIDA ³ Margin	\$109 11.2%	\$134 11.2%	\$332 15.5%	\$199 10.7%	\$102 10.5%	\$383 9.9%	\$173 10.8%	\$51 10.0%
Net Income ⁴ Margin	\$85 8.8%	\$39 3.3%	\$316 ¹ 14.7%	\$157 8.4%	\$81 8.4%	\$344 8.9%	\$134 8.2%	\$31 6.3%
Moody's Rating	Aa3	A1	Aa2	Aa3	Aa3	Aa3		

Note: Shaded area denotes margin/ratio is desirable in comparison to respective Moody's median

¹ Duke net income excludes a one time gain of \$307m caused by a reclassification of investment securities from available-for-sale to trading in FY 2010

² Moody's median financial data based on audited financial statements of freestanding hospitals and single state systems as of 7/29/2011

³ EBIDA is defined as operating income + interest + depreciation & amortization +(-) any non-cash loss (gain)

⁴ For comparability, unrealized gains/losses on investments is included in net income for all healthcare systems profiled

North Carolina's Two-Tier Health Planning System

- AMC's which benefit from Policy AC-3 vs
~ 110 "other" acute care hospitals in NC not eligible for Policy AC-3
- All providers are facing same challenges
 - rising indigent care
 - costly IT and technology requirements
 - rapidly declining reimbursement
 - advent of health care reform
- October 2011 USA Today article notes that
"hospital revenue is at a 20 year low according to Moody's."

.....but the two tier system in North Carolina continues.

First Major Proposed Changes to Policy Since 1983: Spring 2011

- Petition filed by the four AMCs with the State Health Coordinating Council - proposed to expand this unfair advantage beyond the 4 AMCs
 - To include Charlotte Mecklenburg Hospital Authority (CMHA) and Mission Hospitals under Policy AC-3
- Novant filed petition to propose more **transparent** and **consistent reporting** on AC-3 CON- approved assets and more clarity in the **20-mile rule** to compel real consideration of non-AMCs within a 20-mile radius of the AMCs

Policy AC-3 and Hospital Authorities

- CMHA already enjoys special privileges that many other hospitals do not have because it is a **Hospital Authority**. These special privileges include:
 - Territorial boundaries include the city or county creating the authority and the area within 10 miles from the territorial boundaries of that city or county (N.C. Gen. Stat. § 131E-20)
 - Eminent domain (N.C. Gen. Stat. § 131E-24)
 - County appropriations (N.C. Gen. Stat. § 131E-30)
 - Ability to accept transfers of property from the county for nominal consideration (N.C. Gen. Stat. § 131E-31)
 - Antitrust Immunity (means they can acquire and merge as they wish)
- In 2010, CMHA had combined annual net revenues in excess of \$6.5 billion. (Source: *CMHA 2010 Annual Report*)
- In 2010, CMHA owned or managed 33 hospitals in two states, employed more than 1,700 physicians and controlled more than 6,300 licensed beds (Source: *CMHA 2010 Annual Report*)

Does CMHA need to be AC-3 exempt from health planning in order to compete effectively?

House Bill 812

- In the 2011 session, Representative Torbett introduced HB 812 which **removed the 10-mile extra-territorial jurisdiction** of hospital authorities.
- Boundary could only be extended by obtaining a Certificate of Public Advantage.
- Additionally, the hospital authority must obtain an agreement with a hospital facility in the county of the expansion if there is only one hospital, or an agreement with at least one hospital if there are more than one, or obtain an agreement with a health care agency if a hospital does not exist.

Novant supported this legislation

HB 743/SB 505

Proposed Changes to Policy AC-3

Equal Treatment Under SMFP

- During the 2011 legislative session Representative Steen and Senator Hartsell introduced legislation to ensure that future abuse of Policy AC-3 does not occur
 - This legislation, *Equal Treatment Under SMFP*, proposed a straightforward amendment to the CON law that would ensure a level playing field for all hospitals

Novant supported this legislation

The Journey Toward Modernization

- The North Carolina Hospital Association convened a group to make recommendations to the SHCC for improvements and updates to SMFP Policy AC-3.
- August 2011: Novant supported the proposed revision which was voted on favorably by the SHCC. We hope this revision will be included in the 2012 SMFP.

Lingering Questions

- Why have such a detailed health planning process if major exceptions are created?
- Should some providers be treated differently or should we have a health planning process that is ***fair and equitable*** to all providers?
- What is the empirical basis for treating some providers differently?
- What is the impact on providers who must follow health planning completely?
- Has Policy AC-3 *really* benefitted teaching and research?
- How have academic medical centers in the other 49 states been able to succeed without a local Policy AC-3 in those CON laws?
- Is North Carolina serious about avoiding ***unnecessary duplication of services*** and its cost consequences?

Ongoing Review To Keep Up with the Times

- Novant supports proposed revised Policy AC-3
AND ongoing review of this and other policies within the SMFP as well as related provisions of the CON law is critical to reflect changing times.
- **Recommend:**
Continue to Modernize SMFP, its Policies, and related provisions of the CON Law:
 - All CON Applicants are subject to the same CON requirements
 - Transparency
 - Updating & Indexing for inflation of Dollar Ceilings for CON Exempt Projects (*small hospital construction projects, replacement of existing medical equipment, etc.*)
 - Other?
- We have been contacted by the NC Hospital Association and would be pleased to work with them on recommendations for changes.

Mend it, don't end it.